The Management University of Africa

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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

BCM 122 : FINANCIAL ACCOUNTING II

DATE: 6TH AUGUST 2018

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

a) Citing relevant examples, distinguish between tangible assets and intangible assets. **(4 marks)**

b) Briefly describe how tangible and intangible assets are measured: **(7 marks)**

i. On acquisition

ii. After acquisition

c) Pata transportes was a company incorporated on 01 june 2016 and on the same day purchased its first lorry KCA 099S for Kshs 9,000,000.

On 1st April 2017 the company bought its second lorry KCB 120T for kshs 12,000,000

On 01 June 2017 the company bought a third lorry KCB 340X for Kshs 6,000,000

On 1st October 2017 the lorry KCA 099S was involved in an accident and was written off. The insurance company paid the company kshs 2,600,000.

On 31december 2017 lorry KCB 340X broke down and was traded in with a new lorry registration KCB 419Y valued at kshs 8,000,000.The Company paid cash amounting to kshs 5,400,000 for the lorry.

On 1st January 2018 a van KCD 890B was purchased for kshs 4,800,000

Depreciation on motor vehicles is to be provided at the rate of 10% p.a on straight-line basis. The policy of the company is to provide depreciation on a prorate basis. All the vehicles are comprehensively insured.

Required:

i. Motor vehicles account for each month **(4 marks)**

ii. Provision for depreciation account **(7 marks)**

iii. Disposal of motor vehicle account **(3 marks)**

QUESTION TWO

Meja and Kariuki have been trading as partners sharing profits and losses in the ratio of their capital contributions. The statement of financial position of the partnership as at 31 march 2011 was as follows:

	Kshs	Kshs
Non-current assets:		
Motor vehicles		636,000
Fixtures and fittings		271,500
Office equipment		160,000
		1,067,500
Current assets		
Inventories	290,700	
Accounts receivables	441,000	
Cash and cash equivalents	55,200	
Prepaid insurance	24,000	810,900
Total Assets		**1,878,400**
Capital and Liabilities		
Capital accounts:Meja		750,000
Capital accounts: Kariuki		500,000

Current accounts:Meja	172,500	
Current accounts: Kariuki	114,950	287,450
Current Liabilities		
Trade payables	319,350	
Other payables	21,600	340,950
Total Capital and liabilities		**1,878,400**

The partners have been having some disagreements on the following issues:

1. The historical cost of the assets do not reflect the fair value of the assets
2. Although the partners contributed different amounts of capital the partnership agreement did not provide for payment of interest on capital.
3. Karuki devoted his entire working time to the business of the partnership but the partnership agreement did not provide for any salaries for the active members.
4. Karuki strongly believed that the present profits and losses sharing ratio was inequitable.at a meeting convened to resolve the above issues, the partners agreed as follows:

    i) The non-current assets as at 31 march 2011 were to be revalued as follows

    Motor vehicles-Kshs 600,000

    Fixtures and fittings-kshs 262,500

    Office equipment-kshs 225,000

    ii) Inventories as at 31 march 2011 were to be written down to kshs 275,000 and kshs 16,000 was to be written of as bad debts.an allowance for doubtful debts of 5% was to be provided on the remaining accounts receivables.

iii) Interest on capital was to be allowed at 5% per annum for the year ending 31 March 2011.

iv) Karuki was to be paid a salary of kshs 90,000 per annum for the year ending 31 march 2011.

v) Profits and losses were to be shared equally

vi) Meja was to be compensated for his loss arising from the new profit-sharing arrangement by allowing him goodwill of kshs 200,000.the goodwill would be retained in the books of the partnership.

vii) The net profit for the year was kshs 412,500.

Required:

a) Partners' current accounts **(5 marks)**

b) Partners' capital accounts **(3 marks)**

c) Statement of financial position as at 31 March 2011 **(7 marks)**

QUESTION THREE

The following balances were extracted from the books of Kaki Ltd. As at 31 October 2010:

	Kshs'000	Kshs'000
Ordinary share capital (sh 10 each par value)		15,000
Share premium		800
10% debenture		1,000
General reserve		1,000
Revenue reserve (1 nov.200)		1,620
8% redeemable preference shares		8,000
Goodwill	2,500	
Inventory (1 nov. 2009)	2,790	
Purchase and sales	22,180	37,970
D/allowed and d/received	340	502
Salaries	**2,850**	
Rates and insurance	1,702	
Office expenses	1,472	
Directors remuneration	500	
Interim dividend paid: preference	320	
Ordinary	1,500	
Financial assets (at fair value)	8,000	

Trade receivables and trade payables	2,400	2,010
Allowance for doubtful debts		280
Bank balance	1,278	
Building	17,000	
Furniture and fittings	1,500	
Motor vehicles	3,100	
Provision for depreciation:		
Furniture and fittings		300
Motor vehicles		450
Investment income		550
Debenture interest	50	
	69,482	**69,482**

Additional information

1. The cost and net realizable value of the inventory as at 31 October 2010 and 31 October 2009 was kshs 3,650,000 and kshs 3,560,000 respectively.

2. Invoices issued amounting to shs 365,000 had erroneously been treated as invoices received.

   Depreciation is to be provided as follows:

   Furniture and fittings-12.5% on reducing balance

   Motor vehicles-10 on cost

   Ignore depreciation on buildings

3. Allowance for doubtful debts is to be adjusted to shs 240,000

4. Bad debts amounting to shs 40,000 are to be written off

5. Insurance amounting to shs 480,000 had been paid to cater for the period of six months up to 31 January 2011.
6. Provision for accrued debenture interest of shs 50,000 and perefernce dividend of shs 320,000are to be made.
7. Corporation tax for the year estimated to be shs 1,614,000
8. The directors have proposed to pay a final dividend of 10% of ordinary share capital and to transfer shs 500,000 to the general reserve.

Required:

i. Income statement for the year ended 31 October 2010 **(7 marks)**

ii. Statement of financial position as at 31 October 2010 **(8 marks)**

QUESTION FOUR

The treasurer of Green View Sports club has prepared the following summary of the

Receipts	sh "000"	Payments	Sh "000"
Balance as at 1 November 2008		Rent of field pavilion	248,000
Bank account	888,000	Wages for maintenance of field	
		of field pavilion	136,000
Cash In Hand	284,000	Purchase of sports equipment	400,000
Members' subscriptions:		Annual dinner expenses	132,000
Year 2007/2008	44,000	Subdry expenses	68,000
Year 2008/2009	571,000	Bar purchases	420,000
Year 2009/2010	60,000	Bar attendant wages	60,000
Sale of sports equipment	32,000	Bar glasse	12,000
Receipts from hire of sports equipment	56,000	Repairs to equipment	40,000
Sale of tickets for annual dinner	64,000	Hoboraria to Treasurer and Secretary	160,000
Interest on bank deposits	12,000	Balance as at 31 October 2009	
Bar takings	624,000	Bank account	760,000
Income from investments	40,000	Cash in hand	236,000
	2,672,000		2,672,000

i. The following balances were extracted from the records of the club aas at 1 November 2008 and 31 October 2009:

	1 November 2008	31 October 2009
Sports equipment	320,000	?
Accumulated depreciation (sports equipment)	172,000	?
Subscriptions received in advance	92,000	87,000
Subscriptions in arrears	60,000	40,000
Investments at cost	360,000	360,000
Amounts due in respect of sundry expenses	14,000	18,000
Un-presented cheques being payment for repairs	-	18,000
Unrecorded interest on bank deposits	-	9,000
Bar stock	72,000	?

ii. The club's policy is to depreciate sports equipment at 20% per annum on cost. A full year's depreciation is charged in the year of purchase and none in the year of disposal.

iii. Sports equipment sold during the year had been bought on 1 October 2006 for Sh. 70,000,000.

iv. The club runs a bar for the benefits of members. The bar sells stock at a mark-up of 30%.

v. The policy of the club is to write-off subscriptions in arrears after 12 months.

Required:

a) Bar trading account for the year ending 31 October 2009. **(5 marks)**

b) Income and expenditure account for the year ended 31 October 2009. **(10 marks)**

QUESTION FIVE

a) Highlight three objectives of ratio analysis. **(3 marks)**

b) The following are the income statement and statement of financial position for Centac Ltd for the year ended 31 December 2009:

Income

Statement for the year ended 31 December 2009.

		Sh. '000'	Sh. '000'
Sales			850,000
Cost of sales:			
Opening inventory		99,500	
Purchases	Credit -545,250		
	Cash - 14,250	559,500	
Closing inventory		659,000	
Gross profit		(149,000)	(510,000
Operating expenses:			340,000
Selling and distribution			
Depreciation		30,000	
Administrative expenses		10,000	
Interest (financing) expenses		135,000	
		15,000	(190,000)
			150,000
Corporation tax			(75,000)
Profit after tax			75,000

Ordinary dividend (Sh. 0.75 per share)			(15,000)
			60,000

Note: Credit sales are 80% of total sales.

Statement of financial position as at 31 December 2009

		Sh. '000'	sh '000'
Non-Current assets:			250,000
Land and buildings			80,000
Plant and machinery (net)			330,000
Current assets:		149,000	
Inventory	75,000		
Trade receivables	4,000	71,000	
Cash		30,000	
		250,000	
Current liabilities			
Trade payables		(130,000)	
Net current assets			120,000
			450,000
Financed by:			
Issued ordinary share capital (Sh. 10 each)			
			200,000
Share premium			90,000
Revenue reserves			60,000
Shareholders' funds			350,000
Debentures			100,000
			450,000

Note: Assume a 360 day year

Required

i. Current ratio **(2 marks)**

ii. Quick ratio **(2marks)**

iii. Debt ratio **(2marks)**

iv. Inventory turnover **(2marks)**

v. Trade receivables turnover **(2marks)**

vi. Average collection period **(2marks)**

QUESTION SIX

a) Distinguish between prime costs and indirect costs in the context of manufacturing accounts **(1 mark)**

b) Distinguish between master budgets and flexible budgets. **(1 mark)**

c) The following trial balance was extracted from the books of Uvumbuzi Ltd. A medium sized factory that manufactures car batteries, as at 30 June 2010.

	Sh.	**Sh**
Inventory at cost (1 June 2009)		
Raw materials	700,000	
Work-in-progress	1,260,000	
Finished goods	2,500,000	
Distribution costs	850,130	
Returns inward	151,060	
Purchases of raw materials	5,186,000	
Sales		26,001,470
Bank balance		600,200
Freehold land and buildings (land Sh.400,000)	1,700,000	
Plant and machinery at cost	7,300,000	
Office equipment at cost	1,100,000	
Motor vehicles at cost	2,00,000	
Accumulated depreciation (1 July 2009):		
Plant and machinery		2,245,000

Office equipment			245,000
Motor vehicles			800,000
General administration expenses	630,110		
Interim preference dividend paid	100,000		
Bank interest	70,700		
Factory lighting	300,140		
Electricity	460,270		
Office salaries	1,660,130		
Insurance	201,160		
Rates	501,710		
Advertising	1,900,480		
Rent	400,630		
Maintenance of plant and machinery	301,020		
Directors' emoluments	601,140		
Manufacturing wages	5,014,000		
Allowance for bad and doubtful debts		10,000	
Trade receivables and payables	5,000,000	3,562,260	
Ordinary share capital		400,000	
Preference share capital		2,000,000	
Revenue reserve (1 July 2009).		424,750	

Additional Information:

1. The authorised and fully paid share capital of the company as at 30 June 2010 was: 800,000 ordinary shares of Sh.5 each.

200,000 10% preference shares of Sh. 10 each.

2. A provision for the final preference dividend and ordinary dividend of Sh.2.25 per ordinary share ordinary share is to be made.

3. The value of inventory as at 30 June 2010 was as follows:

	Sh.
Raw materials at cost	562,000
Work-in-progress at cost	471,900
Finished goods at transfer price	1,000,000 (100 car batteries)

4. Rent, rates, electricity and insurance expenses are to be apportioned in the ratio of 5:1 between the factory and the office respectively.

5. An insurance premium amounting to sh. 33,520 had been paid for a period of one year to 30 September 2010.
6. Rent and electricity expenses that were outstanding as at 30 June 2010 amounted to Sh.23, 210 and Sh. 12,140 respectively.
7. Office salaries include Sh.642, 370 paid to salesmen.
8. Directors' emoluments include Sh.200,000 paid to the production director.
9. Prepaid rates as at 30 June 2010 amounted to Sh.31,400.
10. 1,500 batteries were completed and transferred to the warehouse at a transfer price of Sh. 10,000 per unit.
11. A provision for corporation tax amounting to Sh. 1,000,000 is to be made.
12. An allowance for bad and doubtful debts at 1% of debtors as at 30 June 2010 is to be made.
13. Depreciation is to be provided as follows:

Asset	Rate per annum
Plant and machinery	15% on cost
Office equipment	10% on cost
Motor vehicles	25% on writing down values
Building	2% on cost.

Required:

Manufacturing trading account for the year ended 30 June 2010. **(13 Marks)**